BUSINESS PROCESS VIII

FFEL ORIGINATION, DISBURSEMENT, REPAYMENT, AND COLLECTION PROCESS

SUMMARY: The Federal Family Education Loan Program (FFELP) disbursed in excess of $20.4 billion in new loans to student and parent borrowers in federal fiscal year 1998. Currently, lenders (and their servicers) service a cumulative outstanding loan portfolio of about $110 billion. Guarantors currently service a cumulative outstanding defaulted loan portfolio of about $15 billion.

Access to higher education may be significantly disrupted if the nation's students and families are unable to continue to rely on FFELP. While there are no ED systems required to make and service FFELP loans to student and parent borrowers, ED is responsible, along with lenders and guarantors, to provide risk mitigation and contingency plans to minimize disruptions in the event of Y2K failures.

BUSINESS PROCESS GOAL: ED's primary goal in this area is to ensure that student and parent borrowers have continued access to FFELP loans. ED is also interested in ensuring that FFELP loan servicing, including the ability of borrowers to make payments as scheduled, is not interrupted. In order to protect taxpayer and borrower interests, it is also critical that guarantor functions, including maintenance of borrower records and collection efforts on defaulted borrower accounts are not interrupted.

BUSINESS PROCESS DESCRIPTION

The making and servicing of FFELP loans consists of four sub-processes:

A. origination,
B. disbursement,
C. lender repayment servicing, and
D. guarantor default collection.

Once a school has determined a student's overall financial aid eligibility (See Student Aid Application and Eligibility Determination), the school determines whether the student or parent has applied for, and is eligible for, a FFELP loan. The school certifies the borrower's eligibility and sends a certified loan application (electronically in most cases) to a guarantor for approval. The guarantor processes the application through automated edits and either approves or denies the application. The guarantor transmits the results to the school and to the lender designated by the borrower in the application.

The lender receives a promissory note signed by the borrower, and in the case of a PLUS Loan, performs a credit check for borrower adverse credit history. On an approved loan, the lender sends loan funds to the school on disbursement dates established by the school. The lender may send funds by check or by Electronic Funds Transfer (EFT). The school credits a borrower's account and disburses any remaining funds to the borrower by issuing a check, making a cash payment, or transferring the funds electronically to the borrower's personal bank account.

After the borrower has left school (See Enrollment Tracking and Reporting), the lender notifies the borrower of payment due dates and provides instructions for making monthly payments. The lender, or its designated servicer, receives and applies payments from the borrower, maintains an accurate payment history, and calculates principal and interest balances for the borrower's account. If the borrower fails to make payments, the lender performs collection activities prescribed by federal regulation, including asking the guarantor for collection assistance. The borrower's prolonged failure to make payments will result in the lender filing a default claim for reimbursement with the guarantor (See Lender and Guarantor Payments). The lender may also file a claim for one of a number of statutory conditions (death, disability, bankruptcy, closed school, or false certification), that entitle the loan to be discharged, that is, paid in full by ED.

The guarantor reviews the lender's default claim to ensure that the borrower's account was serviced according to regulatory requirements and, if so, "purchases" the account from the lender. On a default claim purchased from the lender, the guarantor establishes a collection account and begins its own efforts to recover the defaulted debt. The guarantor may perform collections itself or assign the account to a professional collection agency. In addition to traditional collection strategies, the guarantor tries to obtain repayment through administrative wage garnishment and federal tax refund offsets.

If the guarantor is unsuccessful in recovering the defaulted debt, ED may pay off the guarantor and require the guarantor to assign the account to ED's Debt Collection Service (See Repayment and Collection).

BUSINESS PROCESS CONTINUITY AND CONTINGENCY PLANS

PLAN A

Potential Failure: A lender's FFELP servicing system fails to support one or more critical servicing functions after January 3, 2000.

Mitigation Plans: In fall 1999, ED will notify schools that:
1. ED encourages schools to add Y2K compliant lenders to their "preferred lender lists" if the schools have such lists.
2. ED encourages lenders to retain and archive borrowers' December 31, 1999, servicing and payment histories to allow continued servicing with the most recent information.

Contingency Plans:

1. ED may choose not to impose a liability on a lender for a failure on the lender's part to carry out a required loan servicing activity.
2. In fall 1999, ED will notify schools that ED encourages schools to provide short-term loan funds or to defer tuition bill payment.

Assumptions:
1. There will be lenders that do not experience Y2K failures.
2. There will be servicers that do not experience Y2K failures.
3. Schools have access to adequate short-term loan funds.

For more information, see **DETAILED CONTINGENCY PLAN A**.

PLAN B

Potential Failure: A guaranty agency is unable to approve loan applications or a guaranty agency servicing systems fail to support one or more critical collection and recovery functions after January 3, 2000.

Mitigation Plan: ED is evaluating the Y2K status of guaranty agencies. ED may initiate one of the options listed in the detailed plan in the summer or fall of 1999.

Contingency Plans:
1. ED may take one or more of the actions noted as options in the detailed contingency plan after January 1, 2000, if there is a guaranty agency failure.
2. In fall 1999, ED will notify guaranty agencies that ED encourages guaranty agencies to utilize "blanket guarantees."
3. In fall 1999, ED will notify guaranty agencies that ED encourages guaranty agencies to direct loan applications to other agencies that are Y2K compliant.
4. In fall 1999, ED will notify schools that ED encourages schools to provide short-term loan funds or to defer tuition bill payment.

Assumptions:
1. There will be guaranty agencies that do not experience Y2K failures.
2. Schools have access to adequate short-term loan funds.

For more information, see **DETAILED CONTINGENCY PLAN B**.

PLAN C

Potential Failure: A school or lender is unable to certify loan or disburse funds after January 3, 2000.

Mitigation Plan: In fall 1999, ED will issue guidance encouraging schools to:
1. Determine whether their or their third party servicer's system is Y2K compliant. If a system is not compliant, ED will encourage the school to use an alternate software product or third party servicer that is compliant.

2. Certify, where applicable, annual maximum loan amounts during the fall 1999 term, according to current regulations.
3. Process loans, verify eligibility with the NSLDS or obtain FATs, and transmit certifications before December 31, 1999.
4. Return all excess loan funds and process refunds before December 31, 1999.

Contingency Plans:

1. In fall 1999, ED will issue guidance encouraging schools to:
   - Use an alternative software product or third party servicer that is Y2K compliant.
   - Consider processing and certifying loans manually.
   - Provide short-term loan funds or defer tuition bill payment.
   - Add Y2K compliant lenders to their "preferred lender lists."
   - Accept individual or master checks.
   - Encourage their borrowers to utilize other lenders that are Y2K compliant.
2. In fall 1999, ED will issue guidance encouraging lenders to disburse loan funds via individual or master checks at the school's request in the event of a Y2K failure.

Assumptions:

1. Schools have access to adequate short-term loan funds.
2. There will be third party servicers that do not experience Y2K failures.
3. There will be third party servicers that do not experience Y2K related failures that have the capacity to service additional schools.
4. The school can obtain the services of a Y2K compliant third party servicer in a timely manner.
5. The school is adequately staffed to manually process the volume of loans.

No **DETAILED CONTINGENCY PLAN** is provided because this is not an ED system failure.

DETAILED CONTINGENCY PLAN A

This plan details the steps ED will take in the event that a FFELP lender servicing system fails after January 3, 2000.

FFELP servicing functions are performed by each participating lender. ED's system does not perform any of these servicing functions or exchange data with lender servicing systems unless a loan is transferred to ED's DCS (See Business Process V, Repayment and Collections). ED's role in a Y2K failure is, therefore, limited to assisting lenders with their failures. This contingency plan provides an option for ED to assist a lender that has a Y2K failure.

Business Owner *(This is the name of the business process owner with implementation authority.)*

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I. Prerequisites *(Activities that need to be completed on or before December 31, 1999, to implement the contingency plan.)*

1. GLOS will encourage lenders to retain archive borrowers December 31, 1999, histories and encourage lenders that use servicers that have Y2K failures to direct their business to other Y2K compliant servicers through CBA, NCHELP, and other professional associations.
2. GLOS will encourage lenders that use servicers that, in the event of a Y2K failure, they direct their business to other Y2K compliant servicers through CBA, NCHELP, and other professional associations.

II. Zero-Day Strategy *(In some instances it may be possible to minimize the risk of failure. The zero day strategy provides for risk reduction activities such as shutting down non-essential dependent processes to protect the critical process. These risk reduction strategies must be exercised a day or less prior to January 1, 2000.)*

No zero day strategy is needed since lender servicing in the FFEL program does not involve any ED systems.

III. Trigger Criteria *(The criteria define the instance of failure, time required to implement the contingency plan, and the time required to conduct other trigger activities.)*

Triggers *(A trigger is an event or chain of events that signals the need to implement the contingency plan.)*

Generally, the triggers for implementation of this contingency are external to ED and rely entirely on the identification of a failure by lenders, borrowers, and guaranty agencies.

System Monitoring *(Ongoing systems review.)*

No ED system is involved in lender servicing in the FFEL program.

Response Procedure *(Procedures for notifying responsible parties for system failures.)*

A lender requests relief under this plan by notifying the business owner. The business owner will notify the business resumption team members, OGC, and senior management.

Event Monitoring *(Parties responsible for overseeing systems repairs.)*

No ED system is involved in lender servicing in the FFEL program. However, GLOS will monitor the lender's activities to correct its system failure.

Failure Tolerance Threshold *(The time ED will allow for system repairs to be completed before beginning to implement the contingency plan.)*

No ED system is involved in lender servicing in the FFEL program. However, GLOS will monitor the lender's activities to correct its system failure. The time allowed before the decision is made not to impose a liability on a lender will vary by the failure.

Implementation Timeframe *(The time it will take to implement the contingency plan.)*

No ED system is involved in lender servicing in the FFEL program. However, GLOS will immediately implement its decision not to impose a liability.

Go No-Go Decision Point *(The last day by which the Business Owner must decide whether to proceed with the plan so that it can be implemented on the next day after the Failure Tolerance Threshold.)*

No ED system is involved in lender servicing in the FFEL program. However, GLOS will monitor the lender's activities to correct its system failure. The time allowed before the decision is made not to impose a liability on a lender will vary by the failure.

Notification Procedure *(The actions ED will take to inform customers and partners of the system failure and the contingency plan requirements.)*

ED will notify appropriate guaranty agency of any lender failure. ED will notify the lender of the decision.

IV: Business Resumption Team *(Identify and list the roles and responsibilities of the persons involved in implementing the contingency plan.)*

Business Owner
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Manage the overall activities associated with implementing the contingency plan and has the authority to commit ED resources. Also responsible for the assessment and decision not to impose a liability on a lender and the communication with the other ED officials and the lender.

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Assist the business owner and help gather needed data.

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GLOS Eastern Region Director
75 Park Place, Room 1206
New York, NY 10007

Assist the business owner and help gather needed data.

GLOS Northern Region Director
111 North Canal Street, Suite 830
Chicago, IL 60606-7204

Assist the business owner and help gather needed data.

GLOS Western Region Director
50 United Nations Plaza, Room 524
San Francisco, CA 94102-4887

Assist the business owner and help gather needed data.

GLOS Southern Director
1999 Bryan Street, Suite 2720
Dallas, TX 75201-6817

Assist the business owner and help gather needed data.

V. Sequence of Required Activities *(The activities that the Business Resumption Team will carry out after the Business Owner decides to implement the contingency plan.)*

This is a sequential list of the critical activities performed by the business resumption team to implement the contingency plan.

1. Business owner receives the notification of the failure and request from the lender not to impose liabilities.
2. Business Resumption Team gathers data needed for the assessment.
3. Business Resumption Team makes assessment of what actions will be required of the lender and what action ED will take.
4. Business owner notifies lender, guaranty agencies, and internal ED staff of actions.

VI. Testing Plan *(The activities ED will carry out before December 31, 1999, to test the contingency plan.)*

No testing is required because these are procedures currently used. The cause and severity of the failure will be considered on a case by case basis in determining if the Secretary will exercise his waiver authority.

DETAILED CONTINGENCY PLAN B

This plan details the steps ED will take in the event of a FFEP guaranty agency loan origination or servicing system fails after January 3, 2000.

Business Owner *(This is the name of the business process owner with implementation authority.)*

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I. Prerequisites *(Activities that need to be completed on or before December 31, 1999, to implement the contingency plan.)*

The activities listed below are actions required to prepare for the implementation of this contingency plan.

1. Risk Mitigation Options GLOS has performed:

   Phase I – Year 2000 Readiness Assessment of GAs (July-December 1998)
   a. Collected and evaluated the Year 2000 Management Plans of all 36 GAs
   b. Conducted detailed telephone interviews on Year 2000 readiness with all 36 GAs
   c. Determined the success of all thirty-six GAs' progress in mitigating Year 2000 risks
   d. Developed reports on the Year 2000 readiness of all 36 GAs

   Phase II - Year 2000 Readiness Assessment of GAs – On-Site Assessments (January –April)
   a. Developed an on-site review program focused upon technical as well as managerial aspects of year 2000 risks

1. Conducted week long on-site reviews of 7 GAs
2. Reported on the current year 2000 status and risks of 7 GAs
3. Developed letter to be mailed to all GAs announcing data exchange testing opportunities with the Department.

As part of GLOS's on-going Year 2000 review efforts and as the guaranty agencies near the final phases of Year 2000 compliance activities, effective risk mitigation is critical. In early 1999, GLOS mailed a letter to the guaranty agencies requesting copies of their contingency plans as of February 15, 1999, as well as, a formal statement of the GA's Year 2000 compliance status as of March 31, 1999. These contingency plans and GA statements of compliance will be utilized in GLOS's on-going Year 2000 activities.
2. GLOS has developed a plan for the upcoming months (May-December, 1999) in order to conduct the following activities to mitigate GA Year 2000 related risks to the FFEL Program.

Phase II On-Going – Continued Year 2000 Readiness Assessment of GAs that GLOS will perform:

a. Continued site visits to GAs with potential Year 2000 risks
   - Visit eleven GAs and 1 third party servicer
   - Continued monitoring of all thirty-six GA's progress, especially the progress of those GAs doing any of the following:
     - Implementing a new system in 1999
     - Changing contractors providing services related to any process in the GA's administration of FFEL program activities
     - Achieving compliance between July 1, 1999, and December 31, 1999
     - Incomplete contingency planning efforts.

b. Continue to monitor GAs until all achieve Year 2000 compliance:
   - System(s) that support the guaranty function must be compliant
   - Systems that support daily business functions must be compliant
   - Contingency plans must be in place

c. Continued communication/outreach to GAs regarding the following Year 2000 topics:
   - Data exchange testing with the Department
   - Contingency planning, both GA and the Department's efforts
   - Full back-ups of all GA systems before January 1, 2000.

d. Update GLOS's guaranty agency "shut down" procedures to include Year 2000 scenarios

e. Maintain documentation of Year 2000 activities of GLOS and the GAs

f. Assess GA contingency plans against criteria

Add in a schedule for the following prerequisite risk mitigation activities GLOS is performing:

a. Requiring GAs to test data exchanges with NSLDS and FFELS (May 28, 1999)
b. Contingency planning guidance (June 1999)

   - Notify GAs about risks in Lender Claims Sub-process. Make sure they develop contingency plans for this

   c. Notify GAs to submit any outstanding 1999 requests for payments by December 10, 1999 (August 1999); send follow-up reminder (November 1999)
   d. Notify GAs to submit the September 1999 quarter 1130, 1189 monthly reports through October 1999, and any outstanding corrections for previously submitted reports by December 1, 1999 (August 1999); send follow-up reminder (November 1999)
   e. Data Exchange Testing guidance (July 1999)
   f. Y2K Site Visits (GLOS and OIG) (June through August 1999)

3. GLOS will encourage GAs, in the event of a failure, to utilize “blanket guarantees” or direct loan applications to other agencies that are Y2K compliant.
4. OSFA communications will encourage schools, in the event of a Y2K failure, to provide short-term institutional loan funds and/or to defer tuition bill payment by sending a notice to all schools and posting to our Web site.

II. Zero-Day Strategy *(In some instances it may be possible to minimize the risk of failure. The zero day strategy provides for risk reduction activities such as shutting down non-essential dependent processes to protect the critical process. These risk reduction strategies must be exercised a day or less prior to January 1, 2000.)*

No zero day strategy is needed since guaranty agency loan guarantee and servicing functions in the FFEL program does not involve any ED systems.

III. Trigger Criteria *(The criteria define the instance of failure, time required to implement the contingency plan, and the time required to conduct other trigger activities.)*

Trigger *(A trigger is an event or chain of events that signals the need to implement the contingency plan.)*

Generally, the triggers for implementation of this contingency plan are external to ED. This contingency plan will be implemented when GLOS discovers a Y2K failure in a guaranty agency or the guaranty agency notifies ED of a failure.

System Monitoring *(Ongoing systems review process.)*

No ED system is involved in this failure. However, GLOS will continue to monitor the Y2K status after January 1, 2000, to determine if there are any failures in any guaranty agency. GLOS will contact all the guaranty agencies to assess the status of all of the guarantee functions.

Response Procedure *(Procedures for notifying responsible parties of system failures.)*

The following is a list of procedures to follow to notify Education if the system fails.

The guaranty agency notifies ED/GLOS of its Y2K failure.

The Business Owner, will notify the business resumption team, senior SFA management, Acting Deputy Secretary, OGC, OIG, and OCFO.

Event Monitoring *(Parties responsible for overseeing system repairs.)*

No ED system is involved in guaranty agency loan guarantee and servicing functions in the FFEL program. However, the business resumption team will monitor guaranty agencies progress in repairing any system failures and report on the progress to the business owner.

Failure Tolerance Threshold *(The time ED will allow for system repairs to be completed before implementing the contingency plan.)*

Depending upon the magnitude of the failure, ED may initiate an action immediately or wait for up to six months; therefore, the failure tolerance threshold is 0-18 months depending on the action to be implemented.

Implementation Timeframe *(The time it will take to implement the contingency plan.)*

It will take ED 0 - 12 months to implement option(s) in this plan, depending on the option(s) to be implemented.

Go No-Go Decision Point *(The last day by which the Business Owner must decide whether to proceed with the plan so that it can be implemented on the next after the Failure Tolerance Threshold.)*

ED may make a decision immediately depending upon the magnitude of the problem.

Notification Procedures *(The actions ED will take to inform customers and partners of the system failure and the contingency plan requirements.)*

ED will notify the CEO of the guaranty agency of any action to be taken. Depending on the circumstances and the action to be taken, ED may notify the governor of the state, if appropriate.

IV. Business Resumption ***Team*** *(Identify and list the roles and responsibilities of the persons involved in implementing the contingency plan.)*

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Manage the overall activities associated with implementing any actions. Also responsible for evaluating the options and making a recommendation as to the action to be taken and communicating with any internal sources and all external sources.

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V. Sequence of Required Activities *(The activities that the Business Resumption Team will carry out after the Business Owner decides to implement the contingency plan.)*

This is a sequential list of the critical activities performed by the business resumption team to implement the contingency plan.

See updated document "Considerations When Closing a Guaranty Agency."

VI. Testing Plan *(The activities ED will carry out before December 31, 1999, to test the contingency plan.)*

No testing plan is required because these are current operating procedures and have been performed previously. GLOS has closed down and transferred portfolios of 10 agencies in the past.